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UNCLAS ANKARA 002197

SIPDIS

SENSITIVE

STATE FOR E, P, EUR/SE AND EB  
TREASURY FOR U/S TAYLOR AND OASIA - MILLS  
NSC FOR QUANRUD AND BRYZA

E.O. 12958: N/A

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SUBJECT: TURKISH ECONOMY APRIL 4: GOOD NEWS ON U.S.  
PACKAGE, EXPECTED GOOD NEWS ON IMF LETTER OF INTENT

Sensitive but unclassified, and not for internet  
distribution.

Lira Appreciates on Good News From U.S.

1. (U) News that both houses of Congress passed the supplemental appropriation of \$1 billion for Turkey buoyed the money markets in morning trading April 4. The lira appreciated about one percent to TL 1,655,000. The Istanbul Stock Exchange was up 2.3 percent in morning trading. The benchmark T-bill was unchanged at 63 percent compounded.

2. (SBU) Markets are waiting for the GOT to sign the IMF letter of intent. Local press carried good news on this front from IMF spokesman Dawson, who predicted a mid-April board date for the Fourth Review. IMF resrep told us he has not heard back from the GOT about signing the LOI, that MinState Babacan is in Istanbul for European Investment Bank meetings, and that the LOI could be signed anytime, preferably today (for preparing markets ahead of the April 8 debt auctions).

March Inflation Higher Than Expected

3. (U) On April 3, the State Statistics Institute released March inflation data that were slightly higher than market expectations of CPI increase in the 2.2 - 2.5 percent range. The numbers were:

	March 2003 -----	March 2002 -----
Consumer		
Price Index	3.2 pct	1.9 pct
Wholesale		
Price Index	3.1 pct	1.2 pct

4. (SBU) Comment: March's higher than expected CPI reflects a jump in food prices, owing to cold weather, and thus should not affect interest rates in the T-bill auctions April 8. But the upward trend of CPI inflation is a concern, given March is higher than February (2.3 pct). While it's still too early to predict that the year-end CPI target of 20 percent is out of reach, the first quarter trend is not promising for forward looking inflationary expectations. End Comment.

Financial Community Views

5. During a round of meetings April 4, Istanbul bankers/economists told EconCouns and Congen Pol-Econ chief that, while market sentiment had improved enough in the past two weeks to reduce fears of a financial crisis/debt default in the very short-term, the best-case scenario is that the government manages to muddle through for a few months, with the hoped-for arrival of U.S. assistance perhaps extending that muddle-through period into late summer or fall. Investors expressed no confidence in this government's ability to manage the economy successfully, and a few bankers asserted that some kind of domestic debt restructuring was

inevitable.  
PEARSON